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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

National Intelligence Council

DDI-5202-82
24 June 1982

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

THROUGH : Assistant National Intelligence Officer for Warning

FROM : National Intelligence Officer for Latin America

SUBJECT : Monthly Warning Assessment: Latin America

1. Argentina

The naming of retired General Bignone as President will almost certainly add to political uncertainties in Buenos Aires. Bignone will have great difficulty consolidating his hold on power. Continuing resignations in Navy, Air Force, and senior government ranks are likely. While the civilian reaction to the appointment is not yet known, we anticipate significant opposition, particularly if a conservative economic minister is named. The key to Bignone's survivability probably lies with second echelon military officers. If the President is willing to make some concessions and support what will be more inflationary economic policies, then he may remain in office. These officers appear to have played a major role in Galtieri's fall, and they probably could bring him down, prompting either a further shakeup at the top or perhaps a full housecleaning. The Army might also find itself in an increasingly vulnerable position as more soldiers return from the Falklands complaining about military mismanagement and the lack of support they received. At this point, it is impossible to predict a replacement, but prospects for a return to civilian rule probably would be enhanced if the current hardliners are ousted.

Continued political instability will further exacerbate Argentina's economic problems. Buenos Aires should have sufficient reserves to pay its debts through July and possibly August, but its continued ability to service external accounts will depend on the Army's ability to maintain a total lid on imports and the willingness of foreign banks to roll over Argentine debt. If the internal situation deteriorates further, foreign banks probably will begin to draw down their exposure incrementally--putting even more pressure on reserves. The banks probably will become increasingly unwilling to lend money to buy arms, forcing Buenos Aires to make secret arrangements using gold as collateral.

Domestic political and financial constraints remain the key factors in determining whether Argentina will turn to the USSR for arms. If the UK

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deploys high performance jets (Phantoms) on the Falklands, then Argentina might find MIG-23s attractive, depending on what terms and financing are offered. We estimate, however, that it would take a year to train Argentines to fly the MIGs, and the extended presence of Soviet advisers in Argentina for such purposes might prove politically unacceptable.

Some analysts believe that Argentina will endeavor to return to a "business as usual" posture with respect to its traditional Western arms suppliers. They believe that only if access to these sources of arms is denied to Argentina, either through design or through lack of favorable financing terms, would Buenos Aires turn to the USSR for weaponry (and then only on a selected basis).

We see no logical argument for a renewal of hostilities with the UK or for hostilities breaking out over the Beagle Channel. The UK is stronger militarily; Argentina has been weakened and needs to rebuild its forces; and most generals oppose renewed hostilities. A few analysts are concerned, however, that continued jockeying for power in Buenos Aires might prompt an Army faction or leader to initiate hostilities in order to maintain itself in power or save face. 25X1

2. El Salvador

Analysts view the battle currently being waged in Morazan as having more long-term psychological than military impact. The guerrillas' success in standing and holding their ground against a substantial military force longer than most had expected, should go far to reverse the political and military losses suffered at the time of the elections. In devoting the resources necessary to retake towns overrun by the guerrillas, the army has stretched itself thin elsewhere in the country, making itself more vulnerable to insurgent attacks and "spectacular" operations. We are not yet able to assess the impact of fighting on the morale of the recently-introduced, US-trained battalions. Some analysts expressed concern that junior-level officers are becoming disenchanted with a military doctrine that forces them to take casualties fighting for territory that almost certainly will fall back into guerrilla hands at a later date. Analysts saw little hope for change in Salvadoran military doctrine, however, given the political and military imperative to prevent the establishment of a liberated zone within El Salvador. Recent reports of possible coup plotting were dismissed by all as lacking foundation, although the existent, continuing political strains within the government remain troubling. 25X1

3. Guatemala

The viability of the Rios Montt regime remains a serious concern. The President continues to be criticized for failing to set an election date, not raising military pay, his religious fervor, and taking too soft a line with the insurgents. In dismissing his two junta partners in early June, he has consolidated his hold on power, but chaos still reigns in many government ministries. The recent amnesty program is not likely to bring in many guerrilla defectors or arms, but will give the army time to prepare a major counterinsurgent offensive next month. The guerrillas reportedly also are planning to step up their activities, suggesting that the level of violence could increase dramatically next month. 25X1

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4. Nicaragua

The extension of the state of emergency for another 30 days, the extended visit paid by Cuban Vice President Raul Castro, the importation of another 2,000 more Cubans (possibly including some military advisers), and growing anti-Sandinista activity, all suggest that the Sandinista regime sees itself increasingly threatened both internally and externally. A recent surge in Soviet IL-62 flight activity also was noted, but we have no evidence that anything other than flood relief supplies were on board. Although border tensions between Nicaragua and Honduras may have subsided somewhat, the possibility of a Nicaraguan attack on anti-Sandinista camps in Honduras cannot be discounted. Analysts believe that the activities of exile leaders such as Pastora and Robelo are having some deleterious effect within the country, and limited discontent has been noted in the military, but they do not expect any major shift in the direction of the Sandinista leadership. Analysts do not foresee a major restructuring of the Directorte in the near future. However, the position of the hardliners is likely to be strengthened in coming months.

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5. Mexico

There has been some renewed pressure on the peso and renewed signs of capital flight, but most analysts are cautiously optimistic that no major economic shocks are on the horizon. The government faces a major liquidity crisis in July and August, and much will depend on whether sufficient austerity measures are taken and how long they last. It is generally assumed that the vote count for de la Madrid in the 4 July election will be artificially (and perhaps significantly) inflated, but this is not likely to create serious political problems. A very poor government showing in the polls or a reluctance on the part of Lopez-Portillo to cooperate with the de la Madrid economic program, however, could further undercut confidence in the government--inspiring more capital flight and making it more difficult to impose the necessary austerity measures. This, in turn, could drive up inflation and eventually force another devaluation.

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